

L. R. B. & M. JOURNAL

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The Opportunities for Public Accountants

The West Coast Offices

Contract Audits

The Heavy Construction Industry

The Frozen Food Industry

Certificated Airlines

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Certified Public Accountants

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The Opportunities for Public Accountants

BY DON G. MITCHELL*

My role here tonight is to look at you from the standpoint of a non-professional who utilizes your services, and to tell you what we in management think you should be doing for us, as clients. I certainly am not going to pretend to second-guess you and your objectives, but rather to make a few comments which I hope will show you how valuable we in management feel your contribution is toward the over-all success of our operations.

The concept of the role of the outside accountant varies a great deal throughout industry, and I am confident that comes as no great surprise to anyone here. The degree of acceptance which the public accountant receives in any company may well be beyond the accountant's control, because of any number of factors, including traditions,

personalities, and so on. However, the most significant influence is not exercised by factors outside your control, it seems to me, but rather by factors within your control.

PROPER COMMUNICATION BASIC TO SUCCESSFUL PROFESSIONAL RELATIONSHIP

Before becoming at all specific, however, let's discuss for a moment the basic philosophy of the relationship between a business organization and an outside professional service. I have seen splendid relationships, which were contributing immensely to the success of the client's business, and I have seen others which were remarkably close to being useless. In either case, the crux of the matter is wrapped up in that one word "communication." In the successful relationship the two parties were communicating ideas, viewpoints, and philosophies, and were trying to make the relationship function as a team; in the unsuccessful relationship, there was little or no communication, and no one was on anybody else's wave length.

To be a little more specific, the lack of communication was evidenced by treating the outside ac-

*Don G. Mitchell is Chairman of the Board of Sylvania Electric Products Inc., which has been a client of our firm for some years.

This address was delivered by Mr. Mitchell at the annual meeting of The New York State Society of Certified Public Accountants, held on May 10, 1954, at the Hotel Roosevelt in New York City.

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countants as interim visitors, with the fervent hope that they wouldn't stay too long. It has always been my contention that relations with professional counsel must be harmonious working relationships, or they are worse than nonexistent. They will, in fact, actually be detrimental.

THE BROADENED ROLE OF THE ACCOUNTANT TODAY

That brings us to the exploration of the extremely basic question which is the very foundation of my remarks tonight, and that question is this: What do we businessmen expect and what do we want from public accountants so that the relationship can be as it should be? Well, easily at the top of the list is: We in management certainly want more than scorekeeping. We want more than simply facts and figures. We sincerely want the objective advice which helps us to interpret and to use that information . . . the sort of advice which can come only from an outsider who is viewing us and our operations with an unprejudiced eye, free of the day-by-day operations of the business.

To get back to my comment that a public accountant should be more than a scorekeeper, please do not feel that I am waving any accusing finger at you. I am certain that all of you are just as aware of the problem as I, or you would not be here, and it is my purpose here to-

night simply to reassure you that we in management recognize your broader role and want to do everything we possibly can to help you perform it properly.

For lack of a better description, what I am really discussing, then, is the "intellectual scope" of your job, rather than the routine aspects. It is a case of knowing the client's business from top to bottom, and being able to relate it to business in general. It is a case of knowing not only that the X Company makes a certain kind of product but what other companies make that product, what the competitive conditions of the industry are, and so on.

Let's look at it from another direction. If your client sells just one product, for example, you can provide a real service by going beyond that one product and studying whether the client's activities indicate that he is running an efficient enough operation to warrant expanding to certain other related lines. There is nothing new in this approach—this business of going beyond the obvious requirements of a job and taking the initiative by broadening your viewpoint and offering the kind of advice which could conceivably increase your client's business and bring him greater earnings. I would say that extending oneself beyond the immediate and basic requirements is an ingredient of success whether you are talking about a public accountant, or a management man, or a

salesman, or an engineer, or anyone else.

IMPORTANCE OF THE INTERPRETIVE FUNCTION OF ACCOUNTING

Before I go any further, I should point out that I realize that the greater proportion of you—nearly 75%, I understand—are individual practitioners or partnerships, rather than the larger accounting firms. However, whether you are a one-man show, and your clients are small businesses or proprietorships, or whether you are part of one of the major firms, whose clients are large industry, there is one basic similarity: You are performing the fullest service when you make a point of knowing your client's business and knowing it extremely well, when you relate his business to the entire area of business in which he operates, and when you seek to help him become increasingly successful.

Just how do you go about it? The answer to this question revolves around the gathering of sufficient information upon which to study a situation and take appropriate action. This is no new situation, because it confronts businessmen every minute of every day, whether they realize it or not. The accountant, therefore, who not only provides certain facts but reports to his client the significance of those facts so that action can be taken is the accountant who is truly meeting his client's needs.

Some of you who are tax specialists or perhaps procedures specialists know precisely what I mean. Yours is a particularly fruitful field. You are not too different from the engineering firm which studies a given manufacturing process and suggests ways of improving it, of lowering costs, or of increasing output. Nor are you too different from the marketing counsel who advises his client to change his distribution system in a certain way, or to exploit his products with a certain kind of promotional plan in a specific area, or directed at a certain consumer group.

There are, of course, the clients who do not want any advice. They feel fully competent to handle any given situation, and want you to audit the books and then pick up your brief cases and go home. If you were to offer any advice, you would be met with stony silence which in effect says: If you want to keep this account, stick to your knitting.

It is my distinct impression, however, that those rugged individualists are a vanishing race . . . and are giving way to a type of organizational philosophy which concentrates on teams of generalists and specialists, working together to assure the continued success of the enterprise. There is very little of the "flying by the seat of the pants" in large industry any more. Industry cannot afford it. Action is taken on the basis of scientific ac-

cumulation and evaluation of facts. True, the small business has a different situation, but therein lies the challenge to the public accountant. This is a fertile field—showing the smaller business that it, too, can adopt in some degree the techniques of the large corporations.

I agree that certain accounting practices and related functions in larger companies can never be translated to smaller enterprises. By their very nature, many of the corporate accounting practices are tailored to large operations. But the viewpoint is the thing. The viewpoint or philosophy which gave rise to those practices can be used in large or small or any business, equally well. It is simply the recognition of the fact that accounting procedures are more than a routine compilation of information gathered at periodic intervals because of some statutory requirement, but rather that accounting information, properly gathered and effectively utilized, can be major factors in day-by-day success, no matter how large or small the operation.

IMPROVEMENT IN REPORTING TECHNIQUES NEEDED

This is not easily accomplished, however, whether you are thinking of a large company with an accounting and statistical organization of several hundred persons, or the small business whose accounting department is one clerk. It is a

question of putting in the hands of top management of a corporation or the owner of a drugstore the information which will help him. I sincerely hope you have not obtained the impression from your colleagues who are controllers or chief accountants that this is all in the day's work, and that this goal is easily reached. There are far too many top executives who are literally deluged with lovely reports, beautifully tabbed and indexed, which contribute virtually nothing. They are really the end products of a fact-finding machine which cannot be stopped, and which goes on and on grinding out information, and distributing it whether it is useful or not.

We are attacking this problem with great vigor at Sylvania, to put it mildly. Our President, our Controller, and I have been waging a very spirited campaign, the past few months especially, to restrict accounting and statistical reports to the absolute minimum, which are sent only to those persons requiring them in their work. This, of course, hurts the feelings of the man who likes to get lengthy reports because they seem to add a certain impressive quality to the top of his desk. But we say at Sylvania: You can have all the information you need, but no more. I like to call it the "rifle shot method of report distribution," in contrast to the "saturation method," which only adds greatly to the work load of the

mimeograph section and to the fatigue of the mailing room boys.

This selective process is extremely important and at its best gives an executive a head start in resolving the problems currently plaguing him. An acquaintance of mine hit the nail right on the head the other day. He said his company is finally doing something to stem the flood of reports which relentlessly pursue his executives. "We receive so many reports that we haven't time to do anything about that small bit of really helpful information we find tucked away in some of them. Hereafter a report must be a useful and a concise one, and it will be sent only to those requiring it."

Furthermore, we are seeing to it that the reports are prepared in such a way that the person getting them can understand them. I am sure you will agree that many professionals, whether you are speaking of accountants or engineers or doctors, tend to use professional terms which leave the average layman completely out in left field. Every bit of a report, whether it is the factual information or the conclusions drawn from that information should be reduced to the smallest common denominator.

I cannot emphasize too strongly the importance of speed. In the fast-moving situations which characterize commerce and industry today, information must be timely or it is useless. Whereas I recognize that a final report must be accurate

down to the last penny, the client should be given preliminary or rough figures as soon as they are available so that he can spot the trends. "The sooner the better" are some good words to have in mind.

Our Controller and I have a favorite indoor sport. It consists of a running bet as to which one of us will come up with the best projections. It may surprise you to hear that we usually come up with just about the same answers. In some companies the Controller would lose every time. Do you know why? He would be so intent on reporting facts about the past, that he would ignore the future.

The fundamental responsibility of the Controller is to provide top management with the best possible projections, based upon carefully selected facts. This is another variation of the "outside viewpoint," since he is actually backing off from the routine aspects of his job and is doing a job of interpretation and analysis.

The public accountant is in the same position. He can either become so engrossed in gathering the information that he remains purely and simply a scorekeeper, or he can first tally the score and then tell his client what it means, and what it seems to indicate for the future.

In performing this advisory service, so to speak, the controller or the public accountant have a common problem: Maintaining their

objectivity. All of us will concede that it is extremely difficult to analyze certain types of information with complete objectivity, especially when you have gathered the data yourself or closely supervised the gathering of it. Obviously, certain classes of accounting information cannot be misconstrued by their very nature, even if you tried. But when the entire mass of information is gathered and the process of interpretation begins, you have actually put on another hat, and have transformed yourself from a fact-finder into an analyst. The mental processes of fact finding and analysis are surely different, but the latter must always have the objectivity of the former.

SOME FRUITFUL AREAS FOR
INTERPRETIVE ACTIVITY
BY ACCOUNTANTS

Perhaps at this stage in my remarks I should produce some sort of check list to augment the various principles which I have been enunciating. Some one of you are probably saying to yourselves: All right, I buy the idea that we should be more than scorekeepers, but what are the most fruitful areas for us? That is a legitimate question, and the least I can do is to supply at least a partial answer.

The opportunities vary to some degree, of course, depending upon the sort of client you serve, because some of the problems of a small industrial company obviously have no

counterpart whatsoever in an automobile dealership, or a hardware store, or a construction firm. Some opportunities, however, seem to stretch across the board, and influence all sorts of businesses, large or small.

Inventories are a case in point. Does your client have too much or too little? Are his cost figures accurate, or is his system so antiquated that his picture is completely distorted?

And how about his *finances*? Are his obligations the wrong kind in the wrong place? What volume does it take under today's set of circumstances to break even and what effect will increased volume have on profits? Or you can ask that last question in another way: "Can the client afford to go out and get more business?" That, of course, involves the principle of marginal balance, and the problem confronting your client is to determine whether he will get his money back, and more. He might find that by doubling his sales expense he not only will more than offset the added expense with increased sales, but will show a handsome increase in net profit. But he may also find that increasing his sales expense will bring absolutely nothing. The only way he will get the answer is by working closely with the man who can help him most—the accountant.

If he is a manufacturer, his *materials handling* may be a particularly fruitful field, or perhaps his *produc-*

tion control records. Concerning the latter, incidentally, there are many instances where production control records are such that the word "control" is 100 per cent meaningless. Production control all too frequently means adding up how many of what item had been produced, and no attempt whatsoever is made to evaluate whether the production rate was too high or too low.

And how about "*standard costs?*" There is something about the very title "standard costs" which suggests that some act of Congress has established costs which are the yardstick under every conceivable situation and must be adhered to forever after . . . or else. One of the greatest services a public accountant can perform is to conduct a constant educational campaign which points out that so-called "standards" simply mean the cost of producing a given item under certain circumstances which are then current. Whenever the circumstances change (volume, labor rates, material costs, plant layout and so on), the standards change. I was making that very point to one of our people the other day, and told him that deviations from standard costs made interesting reading but in the final analysis were simply the patient's temperature yesterday. I am much more interested in what the patient is doing today and what the prognosis is for the future.

As our Controller is constantly pointing out, standards should be

used to project those future costs which would be allowable and to point up excess costs which are likely to occur, so that something can be done to correct the situation before it gets out of hand. It goes without saying, in other words, that a bad result cannot be corrected after the fact.

I could spend the entire evening on the subject of *taxes*. If there ever were a lucrative field for the public accountant, it is this one. With today's complex distribution systems, and excise taxes, and sales taxes, and all the other taxes, the public accountant who can dig under the surface and come up with well-founded advice on tax problems is the sort of public accountant the client would like to have sitting in his office every day of the year.

IMPACT OF CURRENT INDUSTRIAL TRENDS UPON ACCOUNTING OPPORTUNITIES

So far we have been discussing certain broad principles and related them to some specific areas, but all of those comments have been historical in nature, in the sense that they are based to a great extent upon the conduct of business as we see it today. There are, however, certain very definite trends throughout industry which would seem to bear watching by you gentlemen, since they point to some extremely significant changes in the way business operates.

Three of these trends seem to be especially significant. First, automation; second, decentralization, and third, the growth of distribution and service businesses. Whether you are a member of a large accounting firm or are a one-man operation specializing in one field, the three trends have something in store for you.

Automation

Take, first, automation. The heart of automation is the machine, and the brain of automation is the electronic device or some complex electric equipment. The entire plant may be automatic or major parts of it, depending upon the situation. In a typical automatic plant, the production lines are directed by a central brain which is an intricate system of controls, relays, switches, and other devices doing a multitude of things simultaneously and in sequence.

A few days ago, I had occasion to visit two new plants—one of ours and one of a supplier's. Both of these plants represent the latest word in automatic production in their respective fields, one making photoflash lamps and the other glass bulbs. The striking thing about both plants is their enormous productive capacity. But who determines what the production rate should be, and how about standard costs, shrinkage, quality control, the number of shifts, and so on? The machines certainly don't have these

answers, because of one very basic fact: machines cannot think. Machines must be shown what to do. That is the job for a team, representing not only manufacturing, engineering, and marketing, but accounting as well. The necessity for teamwork and coordination is all the more evident in automation, since the consequences of machines acting on inaccurate or incomplete information can be serious or even disastrous.

Automation, which in many ways is still in its infancy, will provide enormous new opportunities for the accountant, especially in such areas of production control, costing systems and procedures, and so on. When the automatic plant becomes commonplace, all previous levels of contribution to the world's standard of living will be completely overshadowed.

Decentralization

Turning now to "decentralization," Sylvania and a large number of companies have found that placing the authority and responsibility for operations as far down the line as possible is the way to run the business. In other words, the local plant manager is the boss and operates under broad controls established by the staff at company headquarters. The benefits are many, and include: Far greater flexibility in operations, faster action, new and better ideas, and greater efficiencies

all along the line. This obviously creates quite a problem in communication—so that the decentralized plants will not be operating in separate vacuums, like electrons which have lost the binding force which directs them toward the nucleus of an atom. Though they are decentralized in authority and responsibility, and are given a job to do and permitted to do it, they nevertheless are part of a whole. You can carry "state's rights" too far in industry. To assure coordination—and I do not mean interference with a local manager's prerogatives—company-wide information must be gathered speedily and delivered to those in managerial and policy-making positions in time to do something about it. The accountants have a name for this: Integrated Data Processing, which is a fancy way to describe the process of recording and processing day-by-day information, and presenting it rapidly in summarized form so that management can act while the situation is still fresh.

Here again is a major opportunity for the accountant—helping to develop this system of high-speed communication, deciding what information is required, and what should be done to that information to obtain coordinated reports. Some of you who have had experience with decentralized companies may wonder if such a system would act to the detriment of the operating man, and tend to centralize controls. It

not only would not destroy decentralization but would foster it, by supplying the operating organization with the information they require, and the top management with the information which they need to review operating efficiencies and to provide advice and counsel.

Rapid Growth of Distribution and Service Business

The third trend is the rapid growth of the distribution and service business—the millions of small businesses which distribute, sell, and service the mass production items which characterize our standard of living—the items produced by our increasingly automatic factories and decentralized companies. As industry becomes increasingly automatic, there will be concurrently a strong upward trend in the distribution and service businesses. I am sure that you, as well as I, are aware of many instances where this area of our economy has not kept pace with consumer needs. Getting any mass-produced product out the back door of the plant is only part of the picture. Selling it, installing it, and servicing it is a huge industry in itself, and will expand at an unprecedented rate in the future.

In this distribution and service area lies a third opportunity for the accountant, especially those of you whose clients are the small enterprises. The vast majority of these businesses may be relatively small in size, but what they lack in busi-

ness volume is compensated for a million times by their number, which is increasing steadily throughout the country.

This area of the economy, i.e., distribution, has a constantly recurring characteristic which further emphasizes the need for the kind of service which only an accountant can provide. This characteristic is the tendency to act on incomplete information, to fly by the seat of the pants, to operate on a day-by-day basis. I certainly recognize that the consumer market is a dynamic thing, and is subject to swings and fluctuations which make life utterly miserable for the small businessman. However, much of this misery comes from lack of adequate information and outside advice which a public accountant can give his client.

Well, gentlemen, now is the time for me to close up this auditing

report and summarize my findings. I am firmly convinced that the public accountant can be one of the most productive elements of any business. However, yours and my realization of that fact is only half of the picture. Convincing your clients is the other.

You have a high-quality product to sell, and it is high quality for a very basic reason: It is capable of helping your client sell *his* product. The challenge for each one of you is broad, and it is expanding steadily. This economy of ours may require a tuning-up job every so often, such as the adjustment which now seems to be virtually completed. But the long-run picture is just about as broad as the universe.

To the man who will say: Let's forget what happened yesterday, or even today, and look at the future, there are unlimited opportunities.



The West Coast Offices

The following section of this issue of the L. R. B. & M. JOURNAL contains articles prepared by members of our three West Coast offices, Los Angeles, San Francisco and Seattle. It is not an attempt in any manner to present even a partial picture of the firm's varied clientele in this area. To do this would be tantamount to a review of the scope of economic activity of the area itself, which reflects a wealth and diversity possibly without parallel in our country. Obviously, no one issue of this Journal could deal adequately with such an assignment.

However, the articles contained herein are not entirely unrelated to at least one dominant characteristic of the region, namely, its tremendous growth; in population, construction, food production and communications. Thus, the article by Mr. Warner on "Contract Audits" deals with part of the growing problem of municipal government, the article by Mr. Draewell with certain accounting aspects of the construction industry, the article by Mr. Karg with the growth of the frozen food industry, and that by Mr. Aiken, entitled "A Brief Introduction to Accounting for Certificated Airlines," with the expansion of our communications into the far northwest.

The growth of our own organization in this area prompted the arrangement for a meeting of representatives of our three West Coast offices, as reported herein by Mr. J. J. Hyde of the Los Angeles office. One must live here to understand the prejudices felt for one's own locality, hence the somewhat derogatory (but exaggerated) references to San Francisco and Seattle mentioned by Mr. Hyde.

Contract Audits

BY ROBERT S. WARNER

This article was the basis of an address by Mr. Warner at the Annual Convention of County Auditors' and County Tax Collectors' Associations of California, in February, 1954.

INTRODUCTION

To reach an immediate understanding of this subject, let me state at the outset what I think we mean by the term "Contract Audits." I take it to refer to audits or examinations of the financial transactions of governmental units by independent certified or public accountants, formally engaged by requisite authority, as evidenced by a contract of employment specifying scope of work, obligations of the auditor, terms of compensation and other important conditions. The specific job undertaking usually involves the so-called post-audit, that is, an examination of data after the event; however, there is an equally valid and constructive field of employment of the independent accountant's services in the review of accounting policies, methods, and procedures currently in use. The contract features of the engagement also suggest that orderly steps have been taken to obtain the services of accountants who are adequately qualified to render the best service to the community, under circumstances that will not jeopardize or circumscribe their independent action and judgment, and which

will, in short, establish preliminary conditions of insurance that the community will get its money's worth.

In California the acceptance of services of the independent accountant in the municipal field has been most heartening. There is abundant evidence of a common interest, namely, a clearly expressed desire on the part of municipal accounting officials to consult with the accounting profession and a clearly expressed desire of the professional accountant to respond. But certain problems and practices have arisen which it seems desirable to examine, to the end that sound policies for the procurement and utilization of independent municipal accounting services may be formulated. This is particularly important and timely in view of recent proposals to enact a compulsory audit law affecting incorporated cities in California. The wisdom of such a law is questionable, in my opinion, because code requirements frequently generate nothing but mere compliance, whereas open discussions such as these may lead to improvements in relationships and effectiveness of auditing which would in fact render compulsory audit laws unnecessary.

This review will involve consideration of the qualifications of the certified public accountant, methods of selecting accountants, their responsibilities and limitations, and suggestions for content of audit contracts.

QUALIFICATIONS

Is the certified public accountant qualified to audit the accounts of a governmental organization? Here we may as well start with recital of an indictment, officially expressed by the chief fiscal officer of one of our larger California cities, at a meeting held in 1950 between a committee of certified public accountants and the finance officers' department of the League of California Cities. A number of experiences, uncomplimentary to the accounting profession, were recited, and it was the apparent conclusion of the municipal representatives that many independent public accountants lacked the experience and other qualifications necessary to carry out in a professional manner an audit of the accounts of governmental units. At this point, the independent accountants could have replied, and did reply, with considerable truth, that the practice of many years' standing of engaging accountants on a bid basis had resulted in such grossly inadequate fees that many accountants had lost interest in municipal work. Under such circumstances, only the least qualified would come

to the front in most cases. However, our C. P. A. committee chose not to leave the question in this unsatisfactory condition and, instead, proceeded to formulate a forward-looking program of education seeking to improve the standards of municipal auditing methods and to interest a much greater number of our members in this field of professional service.

This program has been actively pursued, in part jointly with representatives of the League, on the basis of the following principles:

1. It is the duty and function of the California Society of C. P. A.'s to keep its membership advised of current developments in municipal accounting and auditing and to stimulate and renew interest in problems peculiar to municipalities. These problems are used as topics for discussion at Chapter technical meetings, graduate study conferences, and annual meetings.
2. Accounting principles and systems appropriate for municipalities are no more radically different or distinctive than those in use by brokerage firms, railroads, banks, and many others whose accounts are examined by independent accountants. All holders of certificates as C. P. A.'s have passed a difficult examination which almost invariably includes municipal accounting problems. Thus the C. P. A. is assumed initially to be qualified by education and experience, but no absolute guarantee of individual performance may be made. In this respect, the situation is no different from that in the legal, medical, or other professions.
3. Given a reasonable fee and audits for a reasonable period of time, any one of

our society members is in a position to render constructive service.

4. The practice of requiring competitive bids for professional accounting services tends to lower the quality of the work and should be brought to a halt. If an audit is inadequate because of restrictions imposed through competitive bidding, it does not fulfill its intended purpose and may create a false sense of security.
5. Experience in the field of municipal auditing as a criterion in determining an auditor's qualifications should not be unduly emphasized. Experience in other branches of auditing may be far more significant to the development of a comprehensive and mature approach on the part of the auditor than in municipal work alone. Operations under fund and budgetary accounting rules and under strict rules of law are not confined to municipal accounts.

A major event of the utmost importance in accelerating the growing competence of a larger number of independent accountants in municipal matters occurred in 1953 with the adoption of the California school district audit law. While an official appraisal of the results of this first year may show a few instances of deficient performance, I am confident it has shown outstanding evidence of response on the part of the independent accountant. It is safe to say the lack of interest so deplored a few years ago may be regarded as a thing of the past.

In summary, therefore, it is my opinion that the accounting profession in California has, in the last four years, prepared itself on a

satisfactorily broad scale to accept greatly enlarged responsibilities in the field of municipal auditing, and that certified public accountants, as a group, should be considered by municipalities as qualified to serve their needs for independent accounting service.

SELECTION

The root of most of the trouble encountered in choosing an independent auditor for municipal engagements and the source of many an unfortunate experience lies in the fact that selection is confused with negotiation; or, stated another way, selection is made by negotiation. This inevitably means that selection or preference will be decided on the cost factor. I believe that negotiation is a process entirely distinct from selection and one which has little place in the matter of choosing professional service; its function lies in the field of procurement of tangible goods or services.

Furthermore, it has long puzzled me as to why a governmental body feels it has to select its independent accountants in a manner differing from the methods followed by practically all other forms of businesses. The ordinary business firm, desiring to engage accountants, will follow the common sense route of contacting banks, attorneys, and other firms for information on the professional standing of the accountant or accountants being considered. In a preliminary interview, the

auditor is permitted to make a brief survey of the records and determine the principal problems and his approach thereto. In a succeeding meeting he will discuss the services required and his fee arrangements, and his prospective client will in turn appraise the accountant's qualifications and experience and satisfy himself as to the adequacy of the accountant's personnel.

How often do we see this procedure employed in municipal audit arrangements? I am afraid it occurs all too rarely! And to what avail is the accountant's earnest effort at self-improvement, which I have just recited, if, in the course of his selection, those qualities and skills from which alone the benefits to the community will derive, are given little weight, and are subordinated to a mere dollar basis of negotiation! I suggest, therefore, an approach which will insure a better balancing of factors and thus a better appraisal of the relative ability of the accountant to do the job the community wants. Inevitably the fee approach, as a basis of selection, carries over into the scope of audit itself and sets up unwanted limitations within which only minimal work will be performed. Selection should be conducted on a plane commensurate with the intellectual climate recognized as necessary to produce the best results in the actual execution of the audit contract.

I offer one illustration of the undesirable effects of seeking outside

auditing services on a bid basis. One of our larger municipalities recently decided to engage independent accountants to review its accounting controls in certain departments and to determine their efficiency and effectiveness. Letters were sent to a number of firms outlining the services desired and requesting submission of bids on a competitive basis. All of the firms either ignored the request or replied that they were unable to respond under such conditions. Thus this community found itself unable to obtain services definitely needed. Within a week a second letter was issued, withdrawing all reference to competitive bids and soliciting proposals on a proper professional basis. This time the response was complete and constructive. Preliminary selections were made and after appropriate interviews a final selection was made under conditions satisfactory to all concerned.

The California Society of Certified Public Accountants has frequently been asked to furnish tangible assistance to municipalities by compiling lists of practitioners specializing in governmental audits and making recommendations on request. This is hardly a proper function of a society devoted to the interests of all its members. But as a result of a project now under way, it is quite possible that considerable data may be accumulated as to the identity of municipal auditors and the incidence of their employment

on municipal audits, as well as enlightening information on selection practices, fee arrangements, and the like. This project stems from the joint activity with the League of California Cities referred to a moment ago, and consists of a questionnaire prepared in consultation with the accounting profession to be issued by the League to all incorporated cities in California. The questions cover such matters as the frequency of independent audits, procedures for selection of accountants, contract practices, fee arrangements, and contents of reports. The names of accountants employed during the last five years, the total fees allowed, and an expression of opinion as to the competence of the auditors are also requested. It is obvious that if this questionnaire is properly executed, the League will have information of considerable value to any governmental unit interested in proper selection and utilization of independent accounting services.

One last thought is submitted for your consideration in this matter of choosing an outside auditor, and that is the growing practice of awarding engagements to two or more firms, on a joint responsibility basis. This procedure, which is of relatively recent origin, has the advantage of drawing on the skill and experience of more than one firm, and in communities where the accounting firms are small and the engagement of such size that it

would tax the facilities of one firm, makes it possible to utilize local practitioners. It has the further advantage of increasing the number of accountants familiar with a particular community's problems, the better to serve when needed. And last, it lightens the job of the selection committee and minimizes possible criticism of its ultimate selection. The idea of several firms joining together to render a community service is not at all illogical.

AUDITS OF CALIFORNIA COUNTIES

Now let us talk about something closer to home. Assume our county organization has engaged qualified accountants to audit its accounts and functions, what are the types and objectives of the post-audits applicable in the circumstances? Let us first note the authority therefor. Section 25250 of the Government Code of California provides for an annual audit as follows: "At least every twelve months the Board of Supervisors (of each county) shall examine and audit the accounts of all officers having the care, management, collection, or disbursement of money belonging to the county or money received or disbursed by them under authority of law." Section 928 of the California Penal Code requires the Grand Jury (of each county) to make an annual examination of the books, records, and accounts of all the officers of the county and of every city board

of education within the county, and especially those pertaining to revenue. The jury is to render a report with recommendations, and is to engage expert assistance if necessary, at a rate of compensation approved by the court.

The difference in objective of the work contemplated by these two sections is revealed by analysis. Audits under the government code are apparently intended and are generally used for internal application, that is, to keep the governing body, the Board of Supervisors, advised of the financial transactions of the county, the condition of the various funds, the compliance with budget appropriations, and, in general, the accountability of the county employees for the moneys received and expended by them. It can be likened to the operation of internal audit staffs of large private enterprises. I understand that in several of the large counties this work is done by a regularly employed staff of internal auditors but in counties without such facilities the audits are made by outside professional accountants. This type of audit is generally quite detailed.

The situation is entirely different under the Grand Jury section. The jury is constituted as an inquisitorial body, and is interested in more than an ascertainment that all incoming cash was duly deposited or that all expenditures were made in accordance with the budget or that

all invoices were approved. The Grand Jury is interested in the faithful performance of a public trust by the Board of Supervisors itself and by other county officials and employees. It is interested not only in technical compliance with the law but with honesty, with efficiency, and with the obtaining for the taxpayer full value for his tax money. Extravagance and waste are a prime concern of the jury. In contrast to the board audit, which is primarily for management purposes, the jury audit is an investigation made for the electorate; and the jury's report, including the report of the outside auditor, is an accounting of the honesty, efficiency, and business ability of the county organization in fiscal matters.

It is fairly obvious that the more basic purpose of the jury audit strongly suggests the employment of completely disinterested persons in carrying out the auditing function.

As to the two types of audits, neither can stand for the other when taken alone, although with proper planning there is no reason why the objectives of each cannot be achieved by a single examination under jury supervision. Also, in counties having adequate internal post-audit procedures, the Grand Jury auditors have a base from which to start, and can utilize in their work the reports of the internal county auditors, and thus eliminate a considerable amount of detail auditing.

DEVELOPMENT OF SPECIFICATIONS
AND AN UNDERSTANDING
WITH THE AUDITOR;
CONTRACT CLAUSES

I have drawn for you, at some length, my understanding of the fundamental purposes of county audits so that I may next proceed, using subject matter familiar to all of you, to outline the development of an actual contract for such an audit and to comment on related matters suggested by the various clauses.

The contract may properly contain an opening stipulation that the auditors are expert accountants experienced in conducting county and municipal audits, which requires little comment as it is doubtless implied.

The basic identification of the subject matter of the audit would be covered somewhat as follows:

The Grand Jury (or Board of Supervisors) of the County of does hereby employ the auditors to make an audit and investigation of the books, records, and accounts of various offices, departments, and institutions of the County of, including but not limited to those set forth on the attached schedule, which is hereby incorporated by reference, said audit and investigation to be for the fiscal year beginning July 1, 1952 and ending June 30, 1953.

The referenced schedule will also set forth certain principal audit steps, in the nature of an audit program, which serves the very de-

sirable purpose of clearly establishing the scope of the auditor's work.

It is at this point that the parties must reach an understanding as to the type of audit desired and the advantages and limitations thereof. The National Committee on Governmental Accounting, in its publication entitled "Municipal Accounting and Auditing," issued September, 1951, broadly classifies municipal audits into two types, viz., "complete" and "limited," for which I would like to substitute the terms "detailed" audit and "test" audit, respectively. These two types of audit differ essentially in respect of the amount of supporting evidence examined. A detailed audit requires the examination of the details of all books of account, including subsidiary records and supporting documents, as to mathematical accuracy, complete accountability and application of accepted accounting principles. A test audit on the other hand, calls for an evaluation of the effectiveness of the system of internal control and the accounting procedures, and the formulation of an opinion on the accuracy, propriety, and completeness of transactions on the basis of selected tests. Admittedly the detailed audit enlarges the area of support for the auditor's opinion and widens the possibility of disclosure of irregularities if any exist, but such audits have been shown to be prohibitive in cost and seldom of full economic value. On the other

hand, the business community has learned through experience that audits which employ tests and samplings of transactions and which place reliance in part on adequate systems of internal control, and on the basis of which reasonable assurance of the substantial accuracy of financial reports may be had, are of far greater value for their cost. Where the detection of irregularities is concerned, the detailed audit would, of course, be more effective, for the simple reason that the transactions are examined in greater number and detail, but it must be understood that neither type of audit can guarantee the disclosure of irregularities if any exist. A description of the type of audit to be made and a statement of the auditor's responsibility in respect of irregularities, if applicable, should be clearly set forth in municipal audit contracts.

I submit the following sample clause which I believe covers these latter thoughts and the general obligation of the auditor to adhere to recognized standards:

Such audit and investigation shall be conducted by the Auditors in accordance with generally accepted auditing standards applicable in the circumstances and shall include tests of the accounting records and such other auditing procedures as will enable the auditors to express their opinion on the fairness of presentation of the financial statements and summaries examined.

The standards referred to are doubtless known to all of you and

need not be summarized here. Through pronouncements of the American Institute of Accountants they have virtually been codified, and no accountant can escape their application in his work.

Adequate provision should be made for eventualities, such as the disclosure of irregularities or adverse conditions of records. A clause to handle this situation might read as follows:

It is agreed between the parties that in the event the audit shall disclose irregularities or unforeseen conditions which may require further investigation beyond the scope of the regular audit program as heretofore defined, a report of such irregularities or conditions shall be made to the Jury (or Board of Supervisors). If as a result thereof or for any other reason further investigation shall be directed by the Jury (or Board of Supervisors) additional compensation shall be allowed to the auditors to the extent the same may be mutually agreed upon in advance by the parties.

You will note that this clause not only establishes the duty of the auditors to report the unusual conditions, but indicates that before additional work is done there shall be a discussion with the accountants and a determination of the additional cost to the county. In this manner, both parties appear to be protected.

The three contract situations I have just talked about, namely, the scope of audit, the type of audit, and the handling of unforeseen problems will cover the principal professional objectives of the audi-

tor. Of the remainder of the contract, perhaps the most important portion is that dealing with compensation. Generally, this is based upon and determined in accordance with a schedule of hourly or daily rates for each classification of accountant assigned to the engagement, with the stipulation that only qualified persons having experience suitable to the grades specified in the rate schedule shall be used by the auditors, and the number thereof shall be the minimum sufficient to perform the required work. It is the further general practice to provide the Jury (or Board of Supervisors) with some control over the total cost by specifying a tentative maximum cost. This is described as tentative because it is subject to adjustment in the event of the authorization of additional work. This maximum amount may have been requested in the auditors' proposals or may have been determined by negotiation after the engagement of the auditors, the latter course being preferable. The handling of expenses must also be recognized and these can be treated as supplemental charges or included in the basic hourly rates. The time of payment for services rendered should be stipulated. As county engagements frequently run to substantial amounts, the auditor should be given the opportunity to render and receive payment for progress billings up to a reasonable percentage of the cost of the accrued services.

Here it may be interesting to describe a procedure recently worked out in a large city engagement. In this instance, it was felt that the cost of the work, which was of a highly specialized nature, could not be fairly estimated in advance. After the auditors were engaged, a tentative appropriation was set up with the requirement that the auditors shall render monthly progress reports. From these reports the work performed will be evaluated and a better understanding determined as the work unfolds. Whenever it is felt that the objectives have been accomplished the work will be terminated but if, on the basis of the monthly progress reports, it is determined that the work should proceed and might exceed the tentative appropriation, a supplemental appropriation will be granted. This mechanism allows the municipality excellent control over the cost of the work without in any way inhibiting the accountant. I recommend this idea to your consideration.

As to hourly rates, most accounting firms give consideration to the public features of the engagement and use a schedule somewhat lower than that for commercial profit-making enterprises. Some accountants also give consideration to the fact that a great deal of municipal work falls in the period of year when the work load is lighter.

The remainder of the audit contract will cover such details as the

date the work is to be started, the expected completion date, the number of copies of the report, the general content of such report, and certain standard clauses as to the hours of work, working facilities, and citizenship of the accountant's staff.

CONCLUSION

In conclusion, I want to make it clear that the independent account-

ant should not be thought of as self-serving in respect of his enlarging interest in municipal audits. Instead, he is responding, in effect, to a form of duty in which he has sometimes been accused of lack of interest. I think the ordinary C.P.A. is acting pretty much like any taxpayer who wants to see an improvement in municipal accounting and auditing methods and possible tax reduction to all concerned.



The Operating Cycle in the Heavy Construction Industry and its Accounting Significance

BY WALTER G. DRAEWELL

(San Francisco Office)

Much of both ancient and modern history is imbedded in the monumental works of heavy construction. The pyramids of Egypt, the structural remnants of Pagan Rome and Greece, the Great Wall of China, the imposing edifices of the Renaissance, and the vast array of structures which came in the wake of the Industrial Revolution are all products of heavy construction.

The pyramids of the Pharaohs were built with the most primitive of tools and slave labor. History tells us that the projects were of many years' duration and that the cost in human life was staggering. The despots of the day probably had few if any problems of finance or accounting, at least not of today's type.

In modern times, the purpose of heavy construction has become almost exclusively utilitarian, and the tools of construction have become highly mechanized. The undertakings of today are found in every quarter of the globe, and often they involve a conquest of the wilderness in order to harness or transform remote segments of nature where climate is hostile and other conditions are equally forbidding. This entails not only skill in design, engineering,

and construction, but a talent for handling problems of logistics, namely, the procurement, transportation, feeding, and housing of personnel and the procurement and transportation of equipment and materials, all in their proper order.

By its very nature heavy construction is bold and venturesome; it is often unorthodox in its creations and its methods; it engages in long-term and distinctive projects, as opposed to assembly line production; it requires resources of the tangible kind and resourcefulness of a high order; and it can deal harshly with victims of mischance. Such characteristics, while a source of lively reading matter, can prove perplexing to the financier and to the accountant.

At a joint meeting of credit representatives of banks and certified public accountants held in California during the past year, one of the bank representatives stated:

Perhaps the most hazardous business to a commercial lender is that of the contractor. Because of this, it is necessary for us that great care be taken in the preparation of their statements.

Without presuming to evaluate the element of risk to the creditor, it may be said that the construction

industry, more particularly heavy construction, does not lend itself readily to the customary yardsticks for measuring credit risk. The need for care in the preparation of statements, as urged by the banker, is unquestioned; but there is also, and no less emphatically, a need for having a proper perspective of this particular industry.

In order to keep pace with events, financiers and accountants must be as unfettered in their thinking as are those who conceive and carry out projects of the type under discussion. This does not mean a departure from principles or fundamental concepts, but it does call for a reexamination of generally accepted traditions and conventions.

It is not intended here to focus attention on all special problems or to offer hard and fast solutions. Rather this deals with a somewhat offhand selection of special situations and some thoughts on how to meet them within the framework of sound accounting.

CURRENT ASSETS AND CURRENT LIABILITIES

The banking fraternity has accommodated itself fairly well to the financial needs of heavy construction. Except as these needs are for supplements to equity capital, they are of a fluctuating character not suited to the customary type of long-term or short-term borrowings. Heavy construction projects will require up to several years for com-

pletion. Since there are many projects of all descriptions being conducted simultaneously under varying conditions as to advances, progress payments, or other forms of participation by the project owners in the financing, some form of flexible quasi long-term financing is required. This has been provided by credit instruments such as the revolving credit agreements, which came into vogue not many years ago. However, while these credit instruments supply the type of credit required, they still impose conditions as to net current assets, current ratios, etc., which are geared to "short-term paper" thinking. This suggests the need of a better understanding on the part of all concerned as to the relationship between the operating cycle and the identification of current assets and current liabilities of a business enterprise.

Accounting Research Bulletin No. 43 of the American Institute of Accountants, Chapter 3, Paragraph 5, which repeats what first appeared in Bulletin No. 30 in August, 1947, reads as follows:

The ordinary operations of a business involve a circulation of capital within the current asset group. Cash is expended for materials, finished parts, operating supplies, labor, and other factory services, and such expenditures are accumulated as inventory cost. Inventory costs, upon sale of the products to which such costs attach, are converted into trade receivables and ultimately into cash again. The average time intervening between the acquisition of materials or services entering this process

and the final cash realization constitutes an "operating" cycle. A one-year time period is to be used as a basis for the segregation of current assets in cases where there are several operating cycles occurring within a year. However, where the period of the operating cycle is more than twelve months, as in, for instance, the tobacco, distillery, and lumber businesses, the longer period should be used. Where a particular business has no clearly defined operating cycle, the one-year rule should govern.

The operating cycle of the construction industry is not a single one but a composite of many cycles, most of which extend well beyond one year, depending entirely upon the time required for completion of each contract. While the construction industry is not specifically exempted from the one-year rule in the Institute Bulletin, the reasoning for such exemption seems applicable and entirely appropriate.

The typical construction firm has comparatively little need for plant assets as such, except for construction equipment. Very often construction equipment is supplied on a rental basis or becomes a direct cost of the job; in any case, it receives hard usage and, accordingly, has a short life. The sources of equipment and the methods of conducting equipment operations are varied and present a separate problem. However, the point now being made is that the working capital of a construction firm is largely tied up in contract construction work. Some of the working capital may be employed in projects which are handled through joint ventures or

subsidiaries, as to which further comments are in order.

JOINT VENTURES

The magnitude and complexity of construction projects in modern times has brought into vogue the once unique but now common practice of pooling resources, both technical and financial, by several contracting firms for a single project. The sponsorship or management of the project is almost invariably lodged in but one of the participants, and the joint venture terminates with the completion of the project. One of the better known joint ventures of some years ago was composed of a group of contractors who banded together as "The Six Companies" to construct Hoover Dam. The large construction firms may participate in numerous joint ventures, both sponsored and nonsponsored, and, at the same time, carry on many other projects independently. An interesting and sometimes bewildering aspect of joint ventures is the informality of the arrangements as contrasted with the exacting nature of the undertaking. For reasons of applicable state laws and other considerations, a joint venture may take the form of a profit-sharing agreement. They are essentially identical, insofar as pertains to the present subject.

Contracting firms usually carry their participations in joint ventures as investments adjusted, at least

annually, for pro rata of profits or losses on the projects. Distributions are made by the joint ventures as funds are available and final settlements are made upon completion of the projects. A joint venture is but a single project which meets the test of an operating cycle in all applicable respects. Accordingly, all investments in joint ventures, as well as receivables from or payables to them, merit current status as much as the working capital of a project handled independently.

SUBSIDIARIES

The larger contracting firms are generally noted for having numerous subsidiaries, both domestic and foreign. Legal considerations rather than caprice are responsible for this. Where these are single-project corporations, and, in the case of single-project foreign corporations where the contracts require the usual settlement in U. S. dollars in the normal course for U. S. dollar costs and fees, such projects are to all intents and purposes identical in character with the projects handled directly under the parent company's financial structure, so long as the investment in subsidiaries is adjusted for undistributed profit or loss.

The investments in such subsidiaries and the related intercompany accounts receivable and payable have all the substance of working capital. In the case of continuing subsidiaries and also in the case of

single-project subsidiaries which do not meet the specifications just outlined, the investments in the subsidiaries and the related intercompany accounts receivable and payable should have such classification on the parent company's balance sheet as is warranted in the circumstances under existing rules and conventions. However, considerations involving the association of the operating cycle with the current assets and current liabilities would, of course, be applicable within each subsidiary.

CONSOLIDATION OF SUBSIDIARIES AND JOINT VENTURES

The subject of consolidations is closely allied with the preceding comments concerning the working capital status of investments in joint ventures and subsidiaries, including the related accounts receivable and payable. In the case of wholly-owned single-project subsidiaries, consolidation will produce results identical with those under the treatment suggested in the preceding paragraphs as regards working capital. As to other subsidiaries, questions as to whether or not to consolidate should be resolved in the light of existing rules and conventions. As to any of the foreign subsidiaries, there may be a special situation where reports are unduly delayed, and, in such an event, the accounting treatment in the consolidation will have to fit the circumstances.

The question of whether or not to consolidate has special significance in the construction industry as regards joint ventures. The purpose of joint ventures is essentially to spread the risk, which means that, for the most part, any single contractor will not have more than a 50 per cent participation, and usually less. It has been argued in some quarters that sponsorship of the joint venture should be the determining factor as to whether or not consolidation should take place, since sponsorship means operating control. As sponsorship may go with an equity or participation of considerably less than 50 per cent in certain special situations, sponsorship alone would hardly seem to be the controlling consideration. Since, in the case of subsidiaries, consolidation of any which are not wholly owned is based upon an arbitrary yardstick, there is no reason why an arbitrary determination should not be permissible in the case of joint ventures. In the light of the special circumstances involved, it is recommended that consolidation should be based upon sponsorship in the first instance and a participation of not less than 50 per cent. If the suggestions pre-

viously offered, with regard to the treatment of investment in joint ventures together with related accounts receivable and accounts payable as working capital, are accepted, the question of whether or not to consolidate becomes largely academic.

* * *

In summary then, the theory of according current status to the entire working capital of business enterprises whose normal operation cycle extends beyond one year has the sanction of accepted accounting practice. The operating cycle of a firm engaged in heavy construction is no less real because the circulation of working capital follows as many channels as there are contracts in process, many of which may run well in excess of one year. If that is conceded, there should be no question as to the exemption of the construction industry from the one-year rule in the identification of current assets and liabilities, such exemption however applying only to the construction activities of any firm also engaged in other activities. Since the one-year rule is by no means in the discard, the balance sheet should probably carry an explanatory note.



Some Accounting Problems of Frozen Fruit and Vegetable Processors and Distributors

BY FLOYD P. KARG

(San Francisco Office)

The method of preserving fruits and vegetables by freezing had its origin in the early 1920's, and in the early days it was confined generally to freezing of fruits for the hotel and restaurant trade. In the decade ending 1940 the production of frozen fruits more than doubled to an annual total of about 170 million pounds, and frozen vegetables increased from a meager 600 thousand pounds in 1931 to 83 million pounds in 1940.

The tin plate shortage of the 40's gave the industry its greatest impetus. During 1946 the United States production of frozen fruits and vegetables was 523 million pounds and 453 million pounds, respectively. When tin plate for cans again became more plentiful production dropped for a while, but with the availability of steel and the innovation of the deep freeze package deal (a deep freeze and a six months' supply of frozen foods with a small down payment and very liberal credit terms) production again went up. The 1952 production was 420 million pounds of frozen fruits and 896 million pounds of frozen vegetables, a total of 1,316 million pounds.

The Pacific Coast can claim credit

for a large part of this extraordinary growth. In 1952 its lush orchards and fertile valleys, growing crops the year round, accounted for 56 per cent and 57 per cent, respectively, of the total United States production of frozen fruits and frozen vegetables. In California alone, total production of 13 million pounds (4 per cent of the national total) in 1941 skyrocketed to 337 million pounds (26 per cent of the national total) in 1952.

The industry has definitely passed the infant stage and is now suffering the misfortunes of "growing pains" in some quarters. The anticipation of quick profits, particularly of those smaller processors of a single product who pack for the private label trade, is attractive; but severe competition with the canning industry, lack of sufficient working capital, and inadequate cost information has, in some cases, resulted in substantial losses. As to the last-named factor, the national association of frozen food processors has recently appointed a committee to compile and submit a uniform accounting manual for the industry.

Accounting problems of the industry can be grouped in two classifications; those relating to acquiring,

processing and packaging, and those relating to storing and distributing.

Problems of acquisition, processing and packaging are akin to those of the canning industry. Crops of the farmer, which are the source of the raw material, are seasonal and subject to the whims of Mother Nature. They are either abundant or scarce and the processor who can predict the whims of nature and plan his pack, sales volume and prices accordingly is indeed fortunate.

Field representatives of the processor contract with the grower for his crop. As many growers lack adequate capital, the processor is often called upon to finance the rental of land, planting and fertilizing of seed and plants, cultivation and irrigation of the crop, pruning of trees, pest control, and the harvesting and delivery of the crop to the processing plant. Caution must be exercised in controlling growers' advances to prevent credit losses. Adequate accounting records must be maintained to provide control over advances and deliveries and to provide historical records to weed out inefficient growers.

It is important that the field representative supervise the crop planting, growing and harvesting in order to assure the delivery of the best grade of fruit and vegetables obtainable. The processor must also plan his labor force to accord with the seasonal delivery of the crops at their peak of quality.

Direct costs include acquisition costs (field representatives' salaries and expenses), product costs, direct labor and related supervision, payroll taxes, compensation insurance, etc., cost of packages and freezing.

Acquisition costs are usually allocated on the basis of tonnage delivered to the related products supervised by the field representative. The grower is paid for his product at the contract price on the basis of grades established by sampling his deliveries. Advances made to him, including interest, are deducted in making remittances.

Direct costs are allocated to varieties, grades and package sizes on a "qualitative" and "quantitative" basis. When the product is received at the door of the processing plant it is not known what the resultant pack, as to variety, grade or package size, will be. During the processing the product is sorted, graded and packaged, and costs are allocated on the basis of the resultant pack. A formula, based upon average selling prices obtained in prior years for each variety, grade and size of the product, is devised to make the allocation. Costs of packages used are determined by inventories taken at the beginning and ending of the pack. Freezing is costed on a tonnage basis and usually includes the first month's storage. Because of the substantial cost of a freezing and storage plant it is the general practice of the industry to contract for freezing with

a cold storage plant adjacent to the processing plant.

Burden is prorated on the basis of total direct cost, tonnage produced or some other equitable basis.

The larger processors maintain daily cost and yield statistics. Since it is the general practice to establish prices and to contract for sales before the packing season begins, the processor, in order to protect himself, must maintain minimum daily costs and maximum yields, and maintaining daily accounting control of production is the means of accomplishing that end.

Packers of canned and frozen seasonal products generally maintain detailed inventory records by variety, grade and package size, which are numerous, for each product in order to maintain adequate quantities for their customers. In years of short supply they are often required to buy from other processors. Many of the smaller processors finance their inventories through loans on warehouse receipts with bonded field warehouses and sell through brokers on drafts with warehouse receipts attached.

In the canning industry storage is usually in large central warehouses often adjacent to the canning plant. Prices are quoted f.o.b. the cannery. In the frozen food industry, however, costly storage and distribution under constant refrigeration presents quite a problem. This is particularly true of distributors of nationally advertised

brands whose brokerage distributors to retail customers have limited cold storage facilities. In addition to their own frozen fruits and vegetables they must complete their line by carrying products of specialty processors such as frozen fish, shrimp, poultry, etc. Some of the national distributors have their product stored in as many as 200 or more public cold storage warehouses throughout the United States.

Inventory control over stocks in numerous public warehouses is one of the major accounting problems of the industry, and for the larger distributors it is accomplished through the use of card-punching and sorting and tabulating equipment. Available stocks of perishable merchandise must be maintained at all times. It is the general practice to report daily inventories for the information of management. Warehouses are not uniform in reporting daily movements of stocks and storage charges and the accountant must design accounting procedures to conform to various warehouse practices.

There are various types of sales contracts. In some instances contracts provide for a commitment by the retail distributor at the beginning of the pack season for his year's supply with payment on withdrawal and the balance at a specified date. Others are based on deliveries as required. Sales prices are quoted f.o.b. packing plant or the warehouse. In some instances storage

subsequent to delivery at the warehouse is paid by the customer, in others by the processor. Adequate accounting records must be maintained to determine that storage charges are proper and that where applicable they are charged to and collected from the customer.

It is usually the practice of the processor to charge storage to current operations. Freight from processing plants to the nationwide warehouses is deferred on the basis of tonnage remaining in the inventory. Freight on shipments from one warehouse to another in order to maintain available stocks is usually charged to current operations.

Customers with adequate credit ratings are permitted to withdraw stocks from warehouses within credit limits. Billings are made on the basis of deliveries reported by warehouses. Deliveries to cash customers are made on the basis of shipping authorization from the processor to the warehouse. In addition to warehouse reports of daily receipts and deliveries, the processors are furnished by the warehouse with monthly inventory reports. When received they are reconciled with the processor's inventories and differences adjusted. These monthly

reports provide the basis for insurance coverage and for verifying storage charges. In addition to the usual lines of insurance, processors carry insurance on losses from refrigeration failure. Recording thermometers are used in refrigerated transportation facilities as well as in cold storage warehouses to sustain insurance claim for loss from refrigeration failure.

CONCLUSION

The growth of the frozen fruit and vegetable industry has far surpassed the growth in population in the United States and it is now one of the major industries. Those processors with adequate capital, with sufficient quantities and varieties available to their customers, and at attractive prices and profit margins will be in the best position to survive.

Incident to the expansion of the industry there are many changes in processing methods, in equipment design and packaging, and in methods of transportation, storage and distribution. Adequate accounting records and procedures and accurate financial and cost statements will be of material assistance to management in operating profitably.



A Brief Introduction to Accounting for Certificated Airlines

BY ROBERT L. AIKEN

(Seattle Office)

Airplanes have wrought amazing changes in our traveling and business habits. Less than a generation ago a trip across the continent by the fastest trains required the better part of a business week. Now the same trip is regularly completed by airplane between breakfast and dinner. Prior to the Second World War, civilian travel to Alaska generally was by boat—about a five-day voyage. Now the trip requires only a few hours by scheduled airlines. These phenomenal savings in travel time are accepted as a matter of course throughout the civilized world. In fact, some settled areas can be reached only by airplane. The companies that provide air service are an established part of our scheme of living and an integral part of our business community. Tremendous amounts of money are invested in the facilities that provide such service and thousands of people are regularly employed by the companies.

There are two basic groups of businesses required to provide airplane travel to the public. One is composed of companies that design and build the planes. The other group of companies operates the airplanes and provides the generally

reliable schedules the traveling and shipping public has come to expect. For present purposes only the latter group is being considered. These are the so-called "certificated" air carriers, i.e., those to which the Civil Aeronautics Board has issued Certificates of Public Convenience and Necessity granting them authority to render the type or types of services on the route or routes, all as defined in the certificates. The services may be for the carrying of mail or passengers or property (including cargo), or any combination, and may be on either scheduled or nonscheduled bases, or a combination of both. The circumstances under which the certificates of any carrier may be issued, suspended, revoked, or denied are outside the scope of our consideration.

The comments herein are based largely on experiences and practices of some of our clients who furnish air transportation between the Pacific Northwest and Alaska and within the Territory of Alaska. Association with these operations has been particularly interesting because of the relative newness of the application of air transport to a largely undeveloped territory, in-

volving extended distances and extreme weather conditions.

UNIFORM SYSTEM OF ACCOUNTING AND REPORTING

The Civil Aeronautics Act of 1938, as amended, provides that it shall be unlawful for air carriers to keep any accounts, records or memoranda other than those prescribed or approved by the Civil Aeronautics Board. Air carriers subject to the Act are thus required to keep their accounts in accordance with the Uniform System of Accounts for Air Carriers. They are also required to submit to the Board monthly, quarterly and annual reports on specified forms and within prescribed time limits. Other periodic and special information may also be required by the Board. These requirements result in financial statements which are reasonably comparable for the industry; but as in all financial statements, operating and other conditions peculiar to the individual companies must be recognized in order to intelligently analyze the results of their respective operations.

The Uniform System of Accounts for Air Carriers prescribes the same generally accepted accounting principles that are followed by most well-managed businesses. Except for a relatively few items, the system also corresponds with the accounting treatment required for federal income tax purposes. These excep-

tions usually have only a minor effect upon the computation of income subject to tax as compared with net income for reporting purposes. As an example, certain expenses incurred in connection with route development and extension, although of classes which are treated as current deductions for income tax purposes, are required under the Uniform System of Accounts to be treated as deferred charges. One important transaction, the treatment of which may vary for tax purposes as compared with corporate reporting, arises in connection with mail pay adjustments. This is discussed in later paragraphs.

SOURCES OF REVENUE

The principal sources of revenue naturally are from the carrying of passengers and mail. Rates for both types of transportation are regulated by the Civil Aeronautics Board (hereafter referred to as C.A.B. or the Board). For many carriers the mail rates (usually on ton-mile bases) have been established, after lengthy hearings, at amounts that will provide the carriers a fair return on their investment in required property. The Board takes into consideration the type of equipment used, or proposed to be used, so that excessive costs will not be incurred, yet adequate service may be rendered. The amount of the fair return is based upon the cost of such equipment and other factors appropriately con-

sidered for rate-making purposes. In establishing rates per ton-mile for the carrying of mail, complex formulae are used. In general, the amount to be provided by mail pay is composed of three parts which may be identified as (1) the amount needed for the recognized operations to break even, (2) the required return on investment (after income taxes), and (3) income taxes.

Prior to 1954, the entire mail pay was received by the carriers from the U. S. Post Office Department. Now the pay is composed of two amounts—one for the actual transportation of mail, i.e., service pay, which is paid by the Post Office Department; the other, the subsidy necessary to maintain the route or routes, which is now paid by the C.A.B. In the initial stages of operating a route or routes, the actual expenses and revenues can only be estimated. Under these conditions, so-called temporary mail rates are set and are subject to later revision at such time as adequate operating data are available. During past years the inflationary trend has affected airlines' costs as it has those of all other businesses. Under these conditions airlines have been permitted to apply for revisions of the temporary rates, and after due consideration the C.A.B. has acted upon the applications. If adjustments in the rates appear justified, the C.A.B. grants the amounts that seem warranted by the evidence. The revised rates may be more or

less than those previously in effect, and they may be permanent or continue as only temporary. Temporary rates, as the name implies, are rates which will definitely be reconsidered when further information is available. Permanent rates are rates which have been established by the C.A.B. as fair for the particular route. These latter rates are not subject to retroactive revision as are temporary rates, but may be changed upon the appropriate filing by the company of applications for reconsideration by the C.A.B. The C.A.B. may also institute proceedings for changes in the permanent rates. Considerable time may elapse before the Board actually increases or decreases the permanent rates, but the change may be made effective no earlier than the date the application was filed by the company or the Board instituted proceedings for the rate change.

After the expiration of such time as may be necessary for the operations of a route to become reasonably stabilized, permanent mail rates are set by the C.A.B. These are developed after the operator and others have had opportunities to present such evidence as they feel is necessary for a fair determination of the rates.

After permanent or revised temporary rates have been established, the mail pay to which the operator is then entitled is compared with the amount received under the previous rate or rates

that may have been in effect. If the aggregate under the permanent or revised temporary rates exceeds the amounts previously received, the difference is paid to the operator. However, in some instances the aggregate under the permanent or revised temporary rates has been less than the amounts previously received and the operator has been required to repay the excess to the Post Office Department.

The accounting for adjustments of mail pay has posed some interesting problems. For example, practically all airlines carrying mail in the Territory of Alaska operated under temporary rates prior to 1952. In that year certain permanent rates were established. These permanent rates related to prior years of operations during which several different temporary rates had been in effect. In at least one rate case, which related to a nine-year period, the mail routes had been operated by an airline conducted first as a sole proprietorship, then as a partnership, and finally as a corporation. The ownership naturally was different during these three periods, but for purposes of the mail pay adjustment in 1952 no recognition was taken of this condition. To complicate the problem, the treatment of these adjustments of mail pay for federal income tax purposes was not clarified until late in 1953 when Revenue Ruling 169 (C.B. 1953—2,139) was issued. Although the ruling is specific as to the future,

it leaves the problem of prior years unsettled by stating "... this ruling will not be applied with respect to retroactive increases in temporary air mail rates granted by an order of the Board promulgated prior to August 31, 1953."

Prior to Revenue Ruling 169, the only authority for the federal income tax treatment of mail pay adjustments was in two I.T.'s—3851 (C.B. 1947—1,32) and 3961 (C.B. 1949—2,35). These appeared to be somewhat in conflict. In general they provided

- (1) under I. T. 3851 that retroactive increases in *permanent* air mail rates should be taken into taxable income of the year in which the Board issued the order granting the revised rates, and
- (2) under I. T. 3961 that retroactive increases in *temporary* air mail rates accrue for income tax purposes in the years during which the services were rendered.

I.T. 3961 was revoked by Revenue Ruling 169, so that for mail rate adjustments after August 31, 1953 the former conflict has been removed. However, the tax treatment remains unsettled for rate adjustments granted by C.A.B. orders issued prior to that date.

Airlines have been confronted with awkward situations when they have had such adjustments of mail pay and file with the Securities and Exchange Commission annual statements of income covering a series of years affected by the adjustments. No one method of accounting will apply in all such instances. Again generalizing, however, the

principle can be stated that income should be reflected in the year during which it arose and the appropriate income tax should be charged thereto. Rather odd situations can result where income should be reported in a given period but is taxed in a different period, or where because of a combination of circumstances it may not be subject to any income tax. In such instances, explanations through footnotes to the financial statements are required.

OPERATING PROPERTY AND EQUIPMENT

Substantial investments in flight and associated equipment are necessary to provide the regular services of commercial airlines. The flight equipment is rigidly inspected by properly qualified and accredited personnel at stipulated intervals, as well as being subjected to periodic overhauling. The engines, of course, require the most frequent attention. Entire planes are regularly inspected, and the large commercial planes are completely rehabilitated at intervals specified by the C.A.B. Such intervals vary for different types of equipment and for different classes of service.

The useful life of aircraft is relatively low because of continuous improvements being made by the manufacturers. At the present time major passenger planes are being

depreciated for accounting and income tax purposes over estimated lives of four to seven years. These short lives, for units of equipment ranging in cost from about \$75,000 for a used DC-3 to \$1,800,000 for a new DC-6B, result in annual charges to income of substantial amounts of depreciation. This of course is in addition to the costs of routine maintenance, which are very high because of the specialized nature of the required labor and materials.

Some equipment is leased rather than owned by the operating airlines. The rental charge naturally eliminates depreciation costs, but ordinarily does not relieve the operating company of the costs of maintenance.

CONCLUSION

Only those matters have been considered which seem to be of an unusual nature or peculiar to airlines. The accounting procedures and financial and statistical reporting for the industry have now become fairly well stabilized as a result of the Uniform System of Accounts previously mentioned, and the rules, regulations, and orders prescribed by the Board pursuant to the Civil Aeronautics Act of 1938, as amended. Stabilization and uniformity have been implemented also by the C.A.B.'s Economic Regulations which were made effective July 1, 1949.

Report on the Pacific Coast Conference

BY J. J. HYDE

(Los Angeles Office)

The firm's Pacific Coast offices are fortunate in many ways. There is the wonderful climate (it's still considered wonderful despite heavy rains in Seattle and strong winds in San Francisco), the beautiful scenery, and our many generous and friendly clients. Not only that, but there was the Pacific Coast Conference at Del Monte Lodge, Monterey, California, April 15 to 17 this year.

In attendance were 17 from Los Angeles, 10 from San Francisco, 4 from Seattle, guests from two eastern offices of the firm, Mr. Staub of New York and Mr. Hewitt of Philadelphia, and two outside guests, Mr. A. C. Meyer of the San Francisco offices of the Bank of America, and Mrs. Meyer, and Mr. Graham L. Sterling, Jr. of the law firm of O'Melveny & Myers, Los Angeles, and Mrs. Sterling. Mrs. Hewitt and Mrs. Staub were also with us, as were the wives of our West Coast partners. These charming ladies were hostesses at the evening receptions.

Monterey is located in a remote area of Central California known as the Monterey peninsula and sometimes referred to as the golf capital of the world, there being four exceptional courses in the area which have been sites of some of the top tourna-

ments. Del Monte Lodge is situated on famed Pebble Beach golf course and is about two fog banks from the Pacific Ocean. A typical scene pictures an old wind-bent cypress tree overlooking a beautiful beach and a very blue ocean. That's Monterey, and the pictures are all true, as our eastern visitors will attest.

The Pebble Beach course may be described as 18 small greens camouflaged by large sand traps, separated from each other by narrow, crooked peninsulas which are overrun by tall grass and trees. Some of the braver souls undertook to play this course on the afternoon of arrival. One foursome was not doing too well until it was realized that par figures on the score card did not represent the number of strokes which it took a good golfer to negotiate the holes, but represented the number of lost balls allowed for each hole. Using this method of scoring, a few pars were carded. The Cypress Point course was even tougher. The Monterey Peninsula course is laid out in part through beautiful evergreen forests, but is no less arduous. We never did find the Del Monte course, the fourth of this famous group.

Two informal business sessions were held. A morning session



PACIFIC COAST CONFERENCE

Del Monte Lodge, Pebble Beach, California, April 15-17, 1954

READING LEFT TO RIGHT

Top Row: DRAEWELL, McDOWELL, ROWSON, MATT, ANGLEA, KARG, JONES, BURCESS, CASSON, VORIS, VAN DYNE, DAVIDSON, MORRIS, CAMPBELL, R. BUCHANAN, BOTTENFIELD, BRADLEY

Middle Row: BOWLES, STAUB, HEWITT, BRESLIN, MEYER, WARNER, AIKEN, GILES

Bottom Row: DESELLEM, FALLS, JR., KRUMMEL, CASSIDY, SIMS, HYDE, PEARSON, WEBSTER, VOURNAS

featured short talks on subjects of general interest by Messrs. Hewitt, Staub, Bowles, Buchanan, Aiken, Draewell, and Cassidy.

Mr. Hewitt discussed systems work in the Philadelphia office, and Mr. Staub spoke about telephone company audits. Mr. Buchanan covered some of the highlights of the proposed Internal Revenue Code for 1954. Mr. Aiken led an interesting discussion of airline revenue accounting, and Mr. Draewell recounted some unusual experiences arising in connection with his service on the California State Board of Accountancy. Mr. Cassidy scored heavily for Los Angeles in his discussion of municipal engagements, and Mr. Bowle's paper on how an accountant should conduct himself on the witness stand was highly entertaining.

At an evening session, the firm's guests, Mr. Meyer and Mr. Sterling spoke. Mr. Meyer, a banker, spoke diplomatically about the bank's attitude toward C.P.A.'s, and expansively, with justification, about Bank of America. We welcomed the opportunity to discuss mutual problems with Mr. Meyer, as a representative of the world's largest public bank.

Mr. Sterling's subject was stated capital of California corporations, on which he is a recognized authority, and which is a very interesting,

although complex and troublesome problem for the practicing accountant.

Congratulations were extended to Mr. Robert L. Aiken, resident manager of the Seattle office, on the completion of twenty-five years of faithful service to the firm. Mr. Breslin presented Bob with the traditional token of recognition, a wrist watch, and welcomed him into the distinguished ranks of the Twenty-Five Year Club.

On a note of sadness Mr. Warner announced that Mr. Noah O. Brookins of the Los Angeles office had also completed twenty-five years of service with the firm, as of January 1, 1954, and was to have received his award at this conference. Mr. Brookins passed away suddenly on February 15, and in his memory the firm has presented Mrs. Brookins with a lady's wrist watch bearing this inscription:

MARCIA I. BROOKINS

*In appreciation of
twenty-five years service by*

NOAH O. BROOKINS

LYBRAND, ROSS BROS. & MONTGOMERY
1954

As most things must, the conference ended. Those of us who were privileged to attend left with memories of a most pleasant interlude, in addition to aching muscles and sunburn.

SUMMARY OF ACTIVITY OF WEST COAST PERSONNEL IN PROFESSIONAL ACCOUNTING ORGANIZATIONS AND CERTAIN RELATED ACTIVITIES

AMERICAN INSTITUTE OF ACCOUNTANTS

MR. DRAEWELL . . .	Member of Council	1949-50
	Member of Trial Board	1950-51
	Member, Committee on Co-ordination of State Activities	1949-50
MR. WARNER	Chairman, Committee on Natural Business Year	1951 to 1953
MR. BOWLES	Chairman, Housing Committee, 1949 Annual Convention	1949

AMERICAN ARBITRATION ASSOCIATION

MR. CASSIDY	Panel Member	1949 to date
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COMMISSION FOR REORGANIZATION OF CITY OF LOS ANGELES (LITTLE HOOVER COMMISSION)

MR. GIBSON	Vice-Chairman	1950 to 1953
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INSTITUTE OF INTERNAL AUDITORS—PUGET SOUND CHAPTER

MR. AIKEN	Member of Board of Governors	
	Chairman, Admissions Committee	

INSTITUTE OF INTERNAL AUDITORS—SAN FRANCISCO CHAPTER

MR. GILES	Member, National Committee for Co-operation with other organizations	1953
	Governor, local chapter	1951-53
	Chairman, Regional and National Conference Committees	1950-53

CALIFORNIA STATE BOARD OF ACCOUNTANCY

MR. DRAEWELL . . .	Member	1952 to date
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CALIFORNIA SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

MR. GILES	Director	1952-53
	Vice-President	1953-54
	Chairman and Member, Committee on Ethics	1950 to 1952
	Chairman and Member, Committee on Education	1951 to 1953
	Chairman and Member, Committee on Co-operation with State Government	1951 to 1953
MR. BOWLES	Director	1949 to 1952
	Chairman, Special Committee on Unauthorized Prac- tice of Law	1951-52

CALIFORNIA SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS—*Continued*

MR. CASSIDY . . .	Chairman, Committee on Governmental Accounting and Auditing	1950-51
	Same, Member	1951-52
	Same, Member	1952-53
MR. ANGLEA . . .	Member, Committee on Continuing Education	1952 to 1954
MR. BRADLEY . . .	Member, Committee on Governmental Accounting and Auditing	1952 to 1954
MR. VORIS	Member, Committee on Membership	1952-53
MR. WARNER . . .	Director	1952 to 1954
	Vice-President	1954-55
	Chairman, Committee on Governmental Accounting and Auditing	1949-50
	Member, Committee on Public Information	1950-51
	Same, Chairman	1951-52
	Member, Committee on Co-operation with the Bar	1952-53
	Chairman, California Committee on Municipal Accounting	1953 to date
MR. RICHARDSON .	Speaker, 1953 Annual Meeting	
(New York)		
MR. SIMS	Member, Committee on Annual Meeting	1951

CALIFORNIA SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS—
LOS ANGELES CHAPTER

MR. BOWLES . . .	Director	1949 to 1951
	Vice-President	1953-54
	President	1954-55
	Chairman, Program Committee	1953-54
MR. CASSIDY . . .	Member, Accounting and Auditing Procedure Committee	1949-50
	Chairman, Governmental Accounting Committee	1950-51
	Same, Member	1952 to 1954
MR. VORIS	Member, Petroleum Committee	1949 to 1951
	Same, Chairman	1951-52
	Chairman, Membership Committee	1952-53
	Member, Program Committee	1953-54
MR. ANGLEA . . .	Member, Retail Accounting Committee	1951-52
	Member, Accounting and Auditing Procedure Committee	1952-53
	Chairman, Education Committee	1952 to 1954
MR. VAN DYNE . .	Member, SEC Accounting Committee	1949-50
MR. PEARSON . . .	Member, Tax Committee	1949-50
MR. FALLS	Member, Practice and Procedure Committee	1951-52
MR. VOURNAS . . .	Member, Membership Committee	1953-54
MR. GARRISON . .	Member, Library Committee	1953-54
MR. HYDE	Member, Accounting and Auditing Procedure Committee	1953-54
MR. WARNER . . .	Chairman, Public Relations Committee	1950-51
	Chairman, Program Committee	1951-52
	Same, Member	1952-53
	Member, SEC Accounting Committee	1953-54

CALIFORNIA SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS—
SAN FRANCISCO CHAPTER

MR. GILES	Chairman, Committee on Co-operation with Credit	
	Grantors	1949-50
	Chairman, Little Hoover Commission, Accounting Section	1950-51
	Member, Committee on Nominations	1951-52
MR. DRAEWELL . .	Member, Committee on Ethics	1952-53
	Member, Little Hoover Commission	1950-51
	Member, Committee on Legislation	1949-50
MR. SIMS	Member, Committee on Meetings and Program	1952-53
	Member, Committee on Public Relations	1952-53
MR. KARG	Member, Committee on Practitioners' Problems	1952-53
MR. BUCHANAN . .	Member, Tax Committee	1950 to 1953
MR. McDOWELL . .	Member, Committee on Governmental Accounting	1952-53

GRADUATE ACCOUNTING STUDY CONFERENCE

(Annually, at Stanford University and
Claremont Men's College, alternate years)

MR. JENNINGS . . .	Guest Speaker	1950
	(New York)	
MR. WARNER	Discussion Leader	1949
	Same	1954
	Committee	1952
	Speaker	1951
	Same	1952
MR. GILES	Discussion Leader	1949

NATIONAL ASSOCIATION OF COST ACCOUNTANTS—
LOS ANGELES CHAPTER

MR. BOWLES	Director	1949-50
	Vice-President	1950-51
	President	1951-52
MR. VORIS	Associate Director	1950 to 1953
	Editor, <i>El Toro</i> (monthly magazine)	1954-55
MR. GARRISON . . .	Associate Director	1952 to 1954
MR. FALLS	Associate Director	1950-51

NATIONAL ASSOCIATION OF COST ACCOUNTANTS—
SEATTLE CHAPTER

MR. AIKEN	Director	1951-52
	Chairman, Employment Committee	1952-53

NATIONAL ASSOCIATION OF COST ACCOUNTANTS—
SAN FRANCISCO CHAPTER

MR. GILES	Associate Director	1949-50
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The L. R. B. & M. Journal

Published by Lybrand, Ross Bros. & Montgomery, for distribution to members
and employees of the firm.

The purpose of this journal is to communicate to every member of the staff and office, plans and accomplishments of the firm; to provide a medium for the exchange of suggestions and ideas for improvements; to encourage and maintain a proper spirit of cooperation and interest, and to help in the solution of common problems.

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Editorials

The Lybrand Awards for Cost Accounting Literature

The Lybrand medals and certificates of merit are provided annually by the partners of the accounting

firm of Lybrand, Ross Bros. & Montgomery in recognition of the support and encouragement ex-

tended by William L. Lybrand, a long-time member of N.A.C.A.

The committee members of N.A.C.A. which selects the gold and silver medal winners and the twenty-five certificates of merit were Palmer W. Hancock, Comptroller, Owens-Illinois Glass Co., Toledo, Chairman of the committee; co-members, Theodore Lang, Professor of Accounting in the Graduate School of Business, New York University and E. Stewart Freeman, now retired, but formerly Company Auditor, Dennison Manufacturing Company, Framingham, Mass.

The winner of the first place Gold Medal was D. Phillip Beaudry, Jr., Professor of Business Administration, Birmingham-Southern College, Birmingham, Ala., for his outstanding paper entitled "Can You Afford That Asset?"

The Silver Medal was won by Ray E. Longenecker, Controller, Glass & Closure Division, Armstrong Cork Co., Lancaster, Pa. His paper was entitled "Reporting—for Profit's Sake."

The Gold and Silver Medals were presented the winners as a feature of N.A.C.A.'s annual dinner at the Conrad Hilton in Chicago, which was held in conjunction with the association's thirty-fifth annual international cost conference.

In addition to the Gold and Silver Medals, twenty-five certificates of merit were awarded.

Adam Averell Ross Prizes

In 1939, Mr. T. Edward Ross established annual prizes for outstanding students at the Wharton School of Finance and Commerce of the University of Pennsylvania, in memory of his brother, Adam A. Ross. The prizes for 1954 were announced in the commencement program of the University of Pennsylvania as follows:

The prize to the graduating senior who showed the most promise in the Field of Accounting was presented to Mr. David Sachs, of Paterson, N. J. He received a B.S. in Economics Degree.

The prize to the student who majored in Accounting in the Graduate Division of Business Administration and who presented the best thesis for the Master of Business Administration degree was presented to Mr. John R. Shoop, of Pittsburgh, Penna.

The Montgomery Prize

The winner of The Montgomery Prize for 1954 was Mr. George Weinstein, who under the terms of the award established by Colonel Montgomery in 1916, was the member of the graduating class of the School of Business of Columbia University who specialized in accounting and who was deemed by the staff of the School to be the most proficient in all courses.

Notes

Birmingham Office

Mr. Leon L. Palmer has been awarded his Alabama C.P.A. certificate as a result of being successful in the examinations last November.

Mr. Anthony J. DiIenno has become a member of the National Association of Cost Accountants.

Mr. Richardson was guest speaker at the Birmingham Control of the National Controllers Association. His talk on "Tax Planning" was received with many compliments from those in attendance.

The first annual party of the Birmingham office was held at "THE CLUB" on Friday, March 19. Forty-two were in attendance at the dinner dance, including Mr. Harold W. Glore of the Louisville office.

Cleveland Office

The annual golf outing of the Cleveland office was held at the Lake Forest Country Club, Hudson, Ohio, on Friday, June 4. The weather did its best to put a damper on the outing. The rains came about fifteen minutes after the last foursome had driven off in the morning and continued until lunch time, then started again about a half hour after afternoon tee-off time and continued into the night. Notwithstanding the fact that by three in the afternoon even the caddies had

had all the rain they could stand, over half of the golfers finished the eighteen holes.

At the dinner Mr. James P. Colleran acted as toastmaster and distributed the golf prizes. For the second year in a row Mr. Lindstrom had the low gross score. Competition for the blind bogey prize ended in a tie and duplicate prizes were issued to Messrs. R. E. Auer and E. T. Conley. Low net honors were carried off by Mr. M. Zurich. The office was honored to have as its guests three visitors from the Detroit office, Messrs. Donald M. Russell, Linn W. Hobbs and Chester J. Kree.

Miss Catherine E. Pfeifer has been elected First Vice President of the Cleveland Chapter of the American Society of Women Accountants and is Chairman of the Public Relations Committee.

Mr. George B. Talmage recently served on a special committee of the Cleveland Chapter of N.A.C.A. which reviewed and recommended changes in the accounting records, procedures and controls of the Cuyahoga County Council for the Retarded Child. He also acted as chairman and toastmaster of the golf outing and banquet held on June 21 by the Cleveland Chapter of the Ohio Society of Certified Public Accountants.

Detroit Office

Mr. McCullough presented a paper at the State University of Iowa, Iowa City, Iowa, on May 4, 1954 at their first tax seminar. His subject was "Alternate Routes for Effectuating Tax-Free Transfers of Corporate Property."

Mr. Righter has been active as Chairman of the Personnel Committee of the Michigan Association of Certified Public Accountants in obtaining distribution of the moving picture films prepared by the American Institute. He also has been nominated for the Board of Directors of the Michigan Association.

Mr. Russell as Chairman of the Legislation Committee of the Michigan Association entertained, at the Detroit Club, a group of thirty consisting of members of the Michigan State Board of Accountancy, officers of the Michigan Association and the members of his committee. The evening was devoted to analysis of the Michigan C.P.A. law, which has been in effect since 1926.

Mr. Russell is a Director and member of the Finance Committee of the United Foundation, and recently participated on a subcommittee of three, to develop a plan of organization and rules of procedure for the administration of trust funds held by that organization. This plan has been approved and placed in effect.

Messrs. Daniel I. Lessens, Fred S. Spindel and Paul D. Yager,

passed the C.P.A. examinations held in November, 1953, and Messrs. Gerald B. Bennett, Robert M. Hutchison, Ernest M. MacDonald and Howard H. Sweet received "Certificates of Examination."

Houston Office

Mr. Crouch has been elected to serve as a Director of the Texas Society of Certified Public Accountants for the ensuing year.

Louisville Office

Mr. Harold W. Gloré has been elected to the Board of Directors of the Kentucky Society of Certified Public Accountants.

Mr. J. Martin Conder has been appointed to the Board of Directors of the Louisville Chapter of N.A.C.A. Mr. Conder is the Program Chairman for the 1954-1955 season.

Mr. W. W. Pitzer has been elected to membership in the American Institute of Accountants and the Kentucky Society of Certified Public Accountants.

Mr. Frank Overton has returned from two years' active duty in the U. S. Marines.

New York Office

Mr. Hermon F. Bell was elected President of Phi Beta Kappa Alumni in New York for the year June 1, 1954-55. Mr. Bell is a graduate of Amherst College, where he was made a member of Phi Beta Kappa.

He devoted the year following graduation to the study of mathematics and engineering at Massachusetts Institute of Technology, and then spent three years in post-graduate work at Yale University. Mr. Bell is the author of numerous technical works in the field of accounting, as well as other books of general or philosophical nature.

Mr. Richardson spoke on different tax subjects at the Ohio State University Sixteenth Annual Institute of Accounting (May 21), the Virginia Society of Public Accountants (May 27) and the Texas Society of C.P.A. Thirty-Ninth Annual Convention (June 14).

Mr. T. J. Cogan spoke on April 28 to the Connecticut Society of C.P.A. at New Haven on "The Special Problems of Specific Businesses."

Philadelphia Office

On April 12-14, Mr. Schweitzer and Mr. Woodley W. Chandler, of our office, together with Messrs. Shegog, New York, and Walker, Boston, attended the joint accounting conference in Boston of the Edison Electric Institute and American Gas Association.

On May 24-27, Messrs. Schweitzer and Moneta, with Messrs. Shegog and Walker, attended the Sixtieth Annual meeting of the Accounting Division of the Association of American Railroads, which was held in Washington, D. C.

Messrs. Schweitzer and Moneta,

on June 3 and 4, also attended the briefing conference on Securities Laws and Regulations in Washington, D. C., which was sponsored by The Federal Bar Association in cooperation with The Bureau of National Affairs, Inc.

On April 19, Herman C. Heiser addressed the Utica Chapter of N.A.C.A. on "Direct Costing," and on April 20, he spoke before the Elmira Area Chapter on the same subject.

Mr. Mahon will succeed the late J. K. Lasser as Editor of "The Tax Clinic" column in The Journal of Accountancy.

Mr. Hewitt was a member of the Committee on Nominations of the Philadelphia Chapter of N.A.C.A.

Mr. James E. Meredith, of our staff, has been elected a Director of the Philadelphia Chapter of N.A.C.A. for the fiscal year 1954-1955.

Britton H. Miller won the low gross prizes at both the annual meeting of the Philadelphia Chapter of the Pennsylvania Institute of Certified Public Accountants held at Llanerch Country Club on May 24, and the annual outing of the Philadelphia Chapter of the National Association of Cost Accountants at Cedarbrook Country Club on June 3.

The annual Stag Outing of the Philadelphia office was held on Friday, June 4, at Tavistock Country Club, Haddonfield, N. J., which provided a most enjoyable day for

approximately 200 participants, composed of most of the staff members of the Philadelphia office, guests from other offices and former staff associates now with clients. Golf, soft ball, volley ball, horse-shoe pitching and cards provided various degrees of exercise.

Mr. Petty acted as Toastmaster at dinner, which was made especially pleasant by the presence of Mr. Ross. Anniversary watches were presented to Edward Guion, Jr., Norman T. White and Charles J. Earling, Jr., in recognition of their eligibility for membership in the "Twenty-five Year Club," which now comprises 25 active members. Prizes were awarded for skillful or enthusiastic performances and for any other reasons the Committee could think of. The low net golf prize was won by W. J. Holland, who will have his name engraved on The Haas Trophy, which was put in play last year and won by Britton H. Miller at that time.

As usual, Brit Miller had the low gross score this year; the putting contest ended in a tie—W. G. Casey and A. E. Stillman. The eight low-gross scorers who will compete in the match play for the Adam Averell Ross Golf Memorial Trophy, put in play in 1938 by Mr. T. Edward Ross in memory of his brother, are: L. Daniels, B. L. Tacke, W. R. Myers, R. J. Niederliter, J. M. Thompson, Jr., J. V. Cartledge, Jr., W. J. Kelly, Jr., R. W. Emsley.

The Philadelphia area has formed a C.P.A. softball league comprised of teams from L. R. B. & M., and six other firms. Our Philadelphia office team, under the co-management of Steve Loidl and Jack Thompson, is showing championship class so far, having won three and lost a close one.

The following Philadelphia partners and staff members are on the Committees, listed below, of Philadelphia Chapter of the Pennsylvania Institute of Certified Public Accountants for 1954-1955:

COMMITTEES

Executive

Harry C. Zug
Edward P. Mullen

Director of Meetings

Philip J. Taylor

General Meetings

Gustave F. Schweitzer

Accounting Meetings

Edward P. Mullen, Chairman
Harold G. Hunsberger

Tax Meetings

Richard T. Farrand

Accounting Forum

Samuel Wetherald

Auditing and Accounting Procedure

Stephen Loidl, Jr.

Taxation

Raymond E. Graichen
Edward F. Habermehl

Member Advisory Service

Britton H. Miller

Advisory—Local Practitioners

Robert H. Browse

Publicity

Richard T. Farrand
William B. Keast

Relations with Other Organizations

John L. Moneta

Legislation

Harry C. Schmidt

Speakers and Publicity Material

John M. Thompson, Jr.

Cooperation with Educational Institutions

Edward Guion, Jr.

Membership

Burton L. Tacke

Benton B. Wilde

Hospitality

George P. Warren, Jr.

Recreation

James D. McMenamin

Nominations

Harry C. Zug

By-Laws

Harry C. Zug, Chairman

City of Philadelphia Mercantile Tax

Harry C. Zug

Pittsburgh Office

Messrs. Kenneth P. Johnson and Francis X. LaCava were successful candidates at the last Pennsylvania C.P.A. examination and were recently awarded their certificates.

Mr. Marsh is presently serving on the Board of Nominations of the Ohio State University Accounting Hall of Fame.

Committee members of the Pittsburgh Chapter of the Pennsylvania Institute of Certified Public Accountants for the 1954-55 year included the following:

Joseph W. Bower . . . *Insurance, Chairman*

Ralph P. Kulzer *Meetings*

James E. Gelbert *Taxation*

George C. Rattelman *Membership*

Harry G. Lightcap . . . *Public Information*

Duncan A. Bruce *Legislation*

Edward B. Hastings . . . *Cooperation with other professional groups*

On May 24, 1954, Mr. James E. Gelbert addressed the Pennsylvania Tax Institute at Pennsylvania State University on the subject of "HR 8300—Changes Affecting Corporations."

Mr. Joseph P. Wallace has recently completed a series of talks at six universities located in the State of Pennsylvania on the subject of "Contingent Liabilities." This assignment was undertaken on behalf of the Committee on Education of the Pittsburgh Chapter of the Pennsylvania Institute of Certified Public Accountants.

On June 11, 1954, the Annual Golf Outing of the Pittsburgh office was held at Longue Vue Country Club. A number of guests and former L. R. B. & M. staff members and Mr. John C. Potter of the New York office were present for the occasion, which was greatly enjoyed.

St. Louis Office

Mr. Kermit M. Pennington was elected president of the St. Louis Chapter of the Missouri Society of Certified Public Accountants for the year 1954-55.

Mr. William R. Stamm passed the C.P.A. examination, received his Certificate from the Missouri State Board of Accountancy and was admitted to membership in the

Missouri Society of Certified Public Accountants.

Messrs. Stephen D. Saboff and George Kamps have been admitted to auxiliary membership in the Missouri Society of C.P.A.'s.

San Francisco Office

It is with deep sorrow that we report the death of Clayton H. Goodell on June 10, 1954 at the age of 65. He first joined the firm in 1927, and, except for several short intervals of outside employment and in our Los Angeles and Portland offices, had been in the San Francisco office ever since. He was a certified public accountant of Massachusetts, California, and Oregon, and a member of the American Institute of Accountants and The California Society of Certified Public Accountants.

Clay was one of our most popular supervisors—an excellent accountant with highly developed senses of dry humor and warm understanding. Many on our staff received invaluable training under him, and everyone welcomed assignments to engagements that he supervised. We all miss him very much.

Mr. Robert Buchanan was a member of the tax panel at the February 3 meeting of the San Francisco Chapter of the California C.P.A. Society.

Mr. Giles spoke on "Accountant's Responsibilities for Observation of Physical Inventories" at a joint meeting on April 7 of the San Francisco Chapter of the California C.P.A. Society, Robert Morris Associates, and Bankers' Chapter of the Credit Managers Association of Northern California.

Mr. Martin Hanlon gave a paper on "Fiduciary Accounting" at a technical discussion luncheon of the San Francisco Chapter of the California C.P.A. Society on February 24.

The following have been admitted to the American Institute of Accountants:

David A. Biasotti	Robert L. Jessee
Wesley H. DeSelle	John W. Rakow
Martin E. Gill	William C. Sigrist
John J. Tolan	

Mr. Richard B. Sims has joined the National Association of Cost Accountants.

The annual staff outing was held at Claremont Country Club on June 18. Winners in the golf tournament were:

John Rowson	Low gross
Richard Cortopassi	Low net



